

## **INTERIM MONITORING SYSTEM**

### **OVERVIEW**

The objective of the Interim Monitoring System (IMS) is to evaluate ongoing compliance for "1" and "2" rated financial institutions covered by the 36 month examination frequency schedule. The IMS analysis will be conducted between the 17th and 20th month following the examination start date. The results of the IMS analysis will determine whether the institution should continue on the 36 month examination frequency schedule or be scheduled for an examination as soon as possible.

The IMS analysis can be conducted by any examiner and will be performed at the field office level. The specific procedures will be dictated by the composite compliance and CRA ratings.

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### **GENERAL PROCEDURES**

For institutions with **Composite Compliance and CRA Ratings of "1" and "Outstanding"** the examiner would:

- Complete "Minimum Procedures: Off-site"
- Prepare a memorandum to the Field Office Supervisor (FOS) which would be forwarded to the Regional Director for concurrence

For institutions with **Composite Compliance and CRA Ratings no lower than "2" and "Satisfactory"** the examiner would:

- Complete "Minimum Procedures: Off-Site"
- Complete "Minimum Procedures: On-Site" if required by the FOS or the Regional Office

**GENERAL  
PROCEDURES  
(cont'd)**

- Prepare a memorandum to the FOS which will be forwarded to the Regional Director for concurrence

While the performance of on-site procedures is not necessary for financial institutions with composite compliance and CRA ratings of "1" and "Outstanding," this does not preclude an examiner, with the concurrence of the FOS, from performing an on-site visit. In situations where the IMS analysis creates questions or problems that cannot be readily resolved through oral or written communication, an on-site visit is necessary for resolution.

The information resources identified in IMS are indicators which will first help the examiner, and then the FOS, decide whether to maintain the financial institution on the extended examination frequency or accelerate the scheduled examination. Where the IMS indicates serious concerns regarding the integrity of the institution's compliance program, an examination may be appropriate. An integral element of the IMS is examiner experience and judgement.

The Report of Examination should serve as the foundation for the analysis. The IMS provides minimum procedures to be performed during every interim analysis. If concerns are identified as a result of these procedures detailed herein, the examiner should investigate these concerns through discussions with management. The examiner is encouraged to utilize other information resources, such as the DCA examination manual, outstanding DCA directives and current demographic information, to perform the IMS analysis. However, caution must be exercised not to perform the examination procedures to the extent that the work qualifies as a full scope examination.

**IMS OFF-SITE  
PROCEDURES**

The examiner is expected to perform the procedures set forth below during every IMS analysis.

Off-Site Procedures	
1.	Four weeks prior to the commencement of IMS, notify the management of the financial institution by telephone that an IMS analysis is scheduled. The examiner explains the examination frequency schedule and the IMS policy and procedures. The examiner inquires if management would prefer to provide specific information via a telephone call or a written questionnaire. If management requests the questionnaire, a copy should be forwarded to the institution following this initial contact.

**IMS OFF-SITE  
PROCEDURES  
(cont'd)**

<p>If management requests a telephone call, a tentative date should be scheduled and management should be provided with a copy of the Interim Monitoring System Questionnaire (hereafter referred to as Questionnaire) prior to the scheduled telephone call. Approximately one week prior to the scheduled telephone call, management should be contacted to confirm the date and time of the call.</p>
<p>2. Review the most recent compliance and safety and soundness examination reports paying particular attention to violations and corrective action.</p>
<p>3. Review the compliance and safety and soundness correspondence files.</p>
<p>4. Review the Consolidated Reports of Condition and Income (CALL) and the Uniform Bank Performance Report (UBPR). Pertinent information to be reviewed would include, but is not limited to, the following:</p> <ul style="list-style-type: none"> <li>• CALL Reports: <ul style="list-style-type: none"> <li>-- Schedule RC--Balance Sheet</li> <li>-- Schedule RC-C--Loans and Lease Financing Receivables</li> <li>-- Schedule RC-C--Part II Loans to Small Businesses and Small Farms (Only June 30th Report of Condition)</li> <li>-- Schedule RC-K--Quarterly Averages</li> <li>-- Schedule RI--Income Statement</li> </ul> </li> </ul> <p>The examiner would be able to:</p> <ul style="list-style-type: none"> <li>-- Track the growth of the institution</li> <li>-- Identify new loan or deposit products (e.g., introducing credit cards since the previous examination)</li> <li>-- Track the income from loans and deposit accounts</li> <li>-- Identify number of loans and dollar amount of the outstanding loans to small businesses and farms</li> </ul> <ul style="list-style-type: none"> <li>• UBPR: <ul style="list-style-type: none"> <li>-- Review loan to deposit ratio</li> <li>-- Review growth rates</li> <li>-- Review analysis of loan mix</li> <li>-- Review return on assets</li> <li>-- Review cost of funds &amp; yield on loans</li> </ul> </li> </ul>

**IMS OFF-SITE  
PROCEDURES  
(cont'd)**

<p>The examiner would be able to:</p> <ul style="list-style-type: none"> <li>-- Identify the institution's position against its peers</li> <li>-- Identify the institution's position against other local institutions of similar characteristics, if applicable</li> <li>-- Identify new loan or deposit products</li> <li>-- Identify changes which could impact lending policies or pricing, (e.g., profitability could impact lending or investment policies or fee or interest rate structure)</li> </ul> <p>The information gathered from the above and other sources should be reviewed in its totality. Individual ratios or facts should not stand alone in the IMS analysis. Significant variations need explanation and should be taken in context of the institution under review and its surrounding community.</p>
<p>5. Gather information from the institution via a pre-scheduled telephone call or review answers provided in the Questionnaire.</p>
<p>6. Review any complaints made since the previous compliance examination, including those received and processed by other regulatory agencies, if available.</p>
<p>7. Review community contacts made since the previous compliance examination, including those made by other regulatory agencies, if available.</p>
<p>8. Set the scope of the on-site review for applicable institutions.</p>
<p>9. Notify the applicable financial institution's management of the time frame for on-site review.</p>
<p>10. If on-site procedures are not required, the examiner should contact the institution to inform management that IMS has been concluded and whether the institution will remain on the 36 month examination schedule.</p>

The findings of the IMS analysis may indicate one or two weakened areas, however this may not indicate an overall deteriorating compliance/CRA posture. The examiner should identify the underlying causes for the areas of concern prior to recommending an examination.

**MINIMUM ON-SITE PROCEDURES**

The on-site portion of the IMS analysis may be necessary for institutions with composite ratings of "2" for compliance or "Satisfactory" for CRA and, as stated in the Introduction, for those institutions where questions or problems which cannot be resolved by oral or written communication. The FOS, or in some instances, the Regional Office, will determine whether an on-site review is required. The minimum procedures, detailed below, include documentation reviews and interviews with management.

Proper planning for the on-site review is necessary to help determine the scope of the review and identify areas that may need to receive special attention. Attention to these matters in advance will enhance the overall orderliness, efficiency and effectiveness of the analysis. Examiners should be mindful of the institution's satisfactory Compliance and CRA ratings at the last FDIC Examination and should be attentive to regulatory burden issues when conducting the on-site review.

The examiner should focus upon changes in the financial institution's compliance and CRA areas that have developed since the previous examination. Primary changes to review will include new consumer products (loan or deposit), CRA assessment area/delineation and branch location changes, and changes in management that affect the operation of the compliance program. The examiner should also discuss with management any regulatory revisions that have occurred during the interim period to assess awareness of these revisions, answer questions, and ensure implementation of appropriate training or procedures if necessary.

On-Site Procedures	
1.	Conduct an initial meeting with management to discuss the results of the off-site analysis and discuss the scope of the on-site procedures.
2.	Review Board of Director minutes including any CRA/compliance committee minutes. Focus upon those areas described in the "Board of Director/Committee meeting minutes" section of Initial Exam Activities, Part III, Section A.
3.	Review audit reports. Review internal/external audit reports pertaining to the compliance program to note any problem areas identified and evaluate management's corrective actions.
4.	Review Regulation Z restitution, if applicable, since the last FDIC examination. Follow the procedures outlined in the Examination Procedures for Verifying Truth In Lending Restitution Disbursements, Part V, Section E.

**MINIMUM ON-SITE PROCEDURES (cont'd)**

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|----|---|
| 5. | Review the corrective action to deficiencies identified at the previous examination. The examiner would review a limited sample of loan or deposit products to ensure effective corrective measures, or review applicable policies, procedures or training programs.  |
| 6. | Review new loan or deposit products offered since the previous examination. The examiner would review a limited sample of loan or deposit products and any applicable policies, procedures or training programs.  |
| 7. | Review the CRA Public File. Focus upon changes in the assessment area/community delineation since previous examination and new lending activity.  |
| 8. | Conduct an exit meeting with management detailing the results of the examiner's off-site and on-site review. Particular attention should be given to areas that raised questions to the examiner. The examiner should inform management whether a recommendation will be made to retain the institution on a 36 month examination schedule. Also, the examiner should be prepared to discuss any new regulatory changes that have been implemented or are under consideration of implementation since the previous examination. |

**RECOMMENDATION**

At the conclusion of the applicable IMS procedures, the examiner must prepare a memorandum to the FOS with the results of the IMS analysis. The memorandum must contain the following:

- Scope of the analysis performed
- Summary of findings with relevant information to support the findings
- Recommendation whether to retain the 36 month examination schedule or perform an examination

The FOS will forward a copy of the memorandum to the Regional Director for concurrence.

**WORKPAPER STANDARDS**

Appropriate workpapers must be completed for applicable areas reviewed during each visitation. Refer to Standardized Workpapers, Appendix K, in this manual.

**SAMPLE DOCUMENTS**

MEMORANDUM TO: FIELD OFFICE SUPERVISOR

FROM: IMS Examiner

SUBJECT: Bank of Anytown  
IMS Analysis and Recommendation

An IMS analysis of Bank of Anytown was conducted June XX, 199X. The scope of the review included all of the recommended procedures listed in the instruction guide. In addition, during the on-site review and discussion with management, it was determined that management would need assistance developing new compliance audit procedures for the new loan product to be introduced next month. Recommendations for audit procedures were left with management during the on-site meeting.

The findings of the analysis indicate there are no concerns at the present time which warrant an examination. The analysis indicates the institution has maintained a satisfactory compliance program and there is no justification for supervisory concern or intervention.

It is recommended that the Bank of Anytown be retained on the 36 month examination cycle.

Hours:  
Out: 12  
In: 16  
Total: 28  
Travel: 6 (not included above)

MEMORANDUM TO: FIELD OFFICE SUPERVISOR

FROM: IMS Examiner

SUBJECT: Bank of Anytown  
IMS Analysis and Recommendation

An IMS analysis of Bank of Anytown was conducted June XX, 199X. The scope of the review included all of the recommended procedures listed in the instruction guide. Since the previous examination of the institution, the compliance officer retired and has not been replaced. In addition, during the on-site review and discussion with management, it was determined that none of the corrective actions promised at the exit meeting have been implemented. Loan advertisements for home improvement loans still do not contain the appropriate Fair Housing logo and consumer complaints under Regulation E are not being resolved in the required time frame.

The institution implemented minimum balances and service charges on all of its demand and savings deposit accounts six months ago. The appropriate notification was not given to customers at least 30 calendar days prior to the effective date of the change and therefore the institution was in violation of Section 230.5(a)(1) of the Federal Reserve Board's Regulation DD. Management indicated that they were unaware of the notification requirement as the institution had never imposed minimum balance or service fees before.

In view of the absence of a Compliance Officer, the lack of corrective action on previously identified deficiencies, and the identified violation under Regulation DD, resulting from the lack of knowledge of regulatory requirements, it is apparent that the institution has compliance deficiencies at the present time which warrant an examination.

Hours:

Out: 12

In: 24

Total: 36

Travel: 6 (not included above)



President/Chief Executive Officer  
Financial Institution Name  
Address  
City, State Zip Code

Dear President/Chief Executive Officer:

In accordance with our conversation on May XX, 199X, I have enclosed the Interim Monitoring System Questionnaire to be completed and returned to this office. The response to the enclosed Questionnaire will assist us in reviewing your compliance and Community Reinvestment Act (CRA) performance.

The Questionnaire will also help us provide practical guidance for maintaining positive Compliance/CRA performance. Additional space in the Questionnaire is available for any questions you may have concerning new or existing laws or regulations which you would like to discuss. We also request that you provide us with the name of person who can be contacted should we have questions regarding information you provided on the Questionnaire.

[After your response is reviewed, you will be contacted to set a date for an on-site visit with an FDIC examiner.(Include if on-site visit is required.)] Please return the Questionnaire and requested information in the enclosed envelope by [insert date -two weeks from date of letter].

Thank you for your assistance. Questions may be directed to me or to Field Office Supervisor [name] at [(area code) phone number].

Sincerely,

Examiner's signature  
Examiner's name

Enclosures:  
Questionnaire  
Return envelope

President/Chief Executive Officer  
Financial Institution Name  
Address  
City, State Zip Code

Dear President/Chief Executive Officer:

In accordance with our conversation on May XX, 199X, I have enclosed the Interim Monitoring System Questionnaire for your review prior to our scheduled telephone interview on June XX, 199X. The responses to these questions will assist in reviewing your compliance and Community Reinvestment Act (CRA) performance since the previous examination.

Thank you for your assistance. Questions may be directed to me or to Field Office Supervisor [name] at [(area code) phone number].

Sincerely,

Examiner's signature  
Examiner's name

Enclosure:  
Questionnaire

**Interim Monitoring System Questionnaire****Instructions**

For those institutions that wish to complete the Questionnaire, the examiner will:

1. Prepare an IMS cover letter and Questionnaire and mail it to the financial institution.
2. Send the documents in sufficient time for the institution to return them to the FDIC prior to the scheduled commencement of the IMS for that institution.

For those institutions that wish to review the Questionnaire prior to the scheduled telephone interview, the examiner will:

1. Prepare an IMS cover letter and Questionnaire and mail it to the financial institution.
2. Send the documents in sufficient time for the institution to review them prior to the scheduled telephone interview.

NOTE: Additional questions may be added pertaining to a specific area of concern from the last examination. The Questionnaire should not be expanded beyond that.

**Interim Monitoring System Questionnaire**  
**For institutions which elect to complete and return to the FDIC**

In an effort to perform an interim assessment of compliance/CRA activity, the FDIC is requesting management to complete the following questionnaire and return it by (should be within 14 calendar days). All responses to the questionnaire should be based upon activity since the last Compliance Examination and CRA Evaluation.

Financial Institution Name: \_\_\_\_\_

Location: \_\_\_\_\_

Previous exam: \_\_\_\_\_

1. Please describe any significant changes made (or scheduled to occur during the next calendar quarter) in your compliance program, senior management and compliance personnel.
2. Please describe any new loan or deposit products offered and corresponding levels of activity. Please forward any disclosures for the new products with this Questionnaire.
3. Please describe any changes in your data processors or servicers.
4. Has the CRA assessment area changed? If yes, please provide details.
5. Are there any proposed changes in the financial institution's structure (i.e., any branches opened, closed or relocated, mergers, acquisitions, etc.)?
6. Have you been involved in any consumer complaints or litigation alleging credit discrimination (Fair Housing, Equal Credit Opportunity, etc.) or violations of other consumer laws? If yes, please explain.
7. Please describe any compliance/CRA training efforts and the individuals or departments to whom the training was provided.
8. Please describe any compliance/CRA audit reviews you have performed and any subsequent corrective actions.
9. Please list any questions you may have concerning any new or existing consumer laws and regulations.

Bank Contact: \_\_\_\_\_ Telephone No.: \_\_\_\_\_

**Interim Monitoring System Questionnaire**  
**For institutions which choose a telephone interview**

The following questions will be discussed during our scheduled telephone interview on \_\_\_\_\_.

Financial Institution Name: \_\_\_\_\_

Location: \_\_\_\_\_

Previous exam: \_\_\_\_\_

1. Please describe any significant changes made (or scheduled to occur during the next calendar quarter) in your compliance program, senior management and compliance personnel.
2. Please describe any new loan or deposit products offered and corresponding levels of activity.
3. Please describe any changes in your data processors or servicers.
4. Has the CRA assessment area changed? If yes, please provide details.
5. Are there any proposed changes in the financial institution's structure (i.e., any branches opened, closed or relocated, mergers, acquisitions, etc.)?
6. Have you been involved in any consumer complaints or litigation alleging credit discrimination (Fair Housing, Equal Credit Opportunity, etc.) or violations of other consumer laws? If yes, please explain.
7. Please describe any compliance/CRA training efforts and the individuals or departments to whom the training was provided.
8. Please describe any compliance/CRA audit reviews you have performed and any subsequent corrective actions.
9. Please list any questions you may have concerning any new or existing consumer laws and regulations.

Bank Contact: \_\_\_\_\_ Telephone No.: \_\_\_\_\_



***FDIC LAW,  
REGULATIONS,  
& RELATED  
ACTS***

**Applicable Rules**      None

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**Advisory  
Opinions**

None

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**Statements of  
Policy**

None

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***DCA  
MEMORANDA***

None

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***FINANCIAL  
INSTITUTION  
LETTERS (FIL)***

None

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